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The Jacobs Report

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NEW BUDGET BEFORE THE LEGISLATURE

Governor Granholm's 2004-05 budget proposal is a delicately crafted plan, one that will rely on a major funding shift for county revenue sharing, as well as increases in specific taxes such as those administered on cigarettes and liquor.

State Budget Director Mary Lannoye described the budget formula to lawmakers as one-third cuts, one-third funding shifts, and one-third revenue increases. Sources described it as a budget that avoids major cuts in an effort to keep existing programs intact.

Gov. Granholm has made it clear that she will not make major cuts to basic human services, keeping Michigan's 'safety net' intact. In an effort to minimize the cost effect on families paying for college, universities will see their funding hold steady—as long as they agree not to raise tuition beyond the rate of inflation. The amount of money available for revenue sharing with local governments would remain the same, aside from reductions in revenue sharing for counties. There would be no major Medicaid cuts. Additionally, the basic minimum per pupil foundation grant for K-12 schools would rise to \$6,700.

Republican officials said the budget was too "Democratic" for their liking and plan to demand more cuts before agreeing to consider the 75-cent a pack cigarette boost or preserving the estate tax.

Democratic reaction has been positive, pending a review of the full document that Ms. Lannoye will present to a joint meeting of the House and Senate Appropriations committees.

"I support the governor's plan as it stands," said state Senator Gilda Z. Jacobs (D-Huntington Woods). "Where negotiations with the Republicans take us remains to be seen, but I hope that the forthcoming decisions will not only balance the budget, but will also prove to promote Michigan's fiscal health in years to come."

Reaction has also focused on the tax proposals, with lawmakers from both parties noting that if the Republican-controlled (and generally anti-tax Legislature) fails to pass them, the foundation for the budget proposal will collapse.

Major elements of Gov. Granholm's budget include:

A 75-cent per pack increase in the cigarette tax, which the administration says will raise \$280 million;

Having counties collect all of their property taxes in July, instead of in July and December, a move that would allow the state to cut about \$183 million in statutory revenue sharing funds from counties. With those monies a \$1.4 billion fund will be created that the counties will use for several years in lieu of receiving statutory revenue sharing. Unclear at this time is how counties will make up that money for current operations in the fiscal year;

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Decoupling the state's estate tax from the federal estate tax, which is scheduled to expire, raising about \$80 million;

Eliminating the state's scholarship programs for private colleges, saving about \$60 million. This is the most dramatic programming cut Ms. Granholm is expected to propose;

Increasing the mark-up on the state's liquor tax, a move that would raise about \$30 million, much of it for firefighting grants to communities that house state property;

Limiting the payments in lieu of taxes to local governments with state property, designed to save up to \$10 million;

Eliminating set-asides for school districts receiving more than \$9,000 per pupil for operations, a change that would save \$6.5 million.

REVENUES CONTINUE TO FALL

Economists expect 2004 to be a marginally better year for the state, but the first month of the year ended up in the economic dumpster. Michigan tax revenues were down for the month by 7.3 percent from January 2003.

The state collected \$1.7 billion during January, and for the 2004-05 fiscal thus far has collected \$4.8 billion. For the year thus far, revenues are down by 2.8 percent from the year before.

The loss for the month was driven by significantly lower sales tax revenues, a drop in the single business tax and a thunderous 83.8 percent drop in collections of the state's education tax. The state education tax drop, however, was not completely unexpected because of the change in the collection of the tax. If the education tax is taken out of the figures, then January's decline was just 2.8 percent.

The state's income tax collections were up by .9 percent, to \$756 million, but that was largely because of a major drop in tax refunds paid compared to 2003. The gross income tax collected, \$794.7 million, was still down by 1.4 percent.

For the year, income taxes are down by 1.3 percent, netting \$1.8 billion.

The sales tax fell by 9.4 percent from the year before, and January was the seventh month out of the last 12 that collections have fallen. Sales taxes brought in a total \$492.1 million. The motor vehicle portion of the tax was down by 17.8 percent from January 2003.

For the year, sales tax revenues are down by 3.4 percent, collecting nearly \$1.6 billion.

The SBT collections totaled \$190 million in January, down 2.9 percent. For the year the tax is down 10.3 percent, netting just \$420 million.

There was some good news for state officials, especially involving the real estate transfer tax, which was up by 47.5 percent as homebuyers continued to take advantage of low mortgage rates. The tax netted \$26.4 million for the month, and is up by 40 percent for the year so far, netting \$82.1 million.

The tobacco tax (which Governor Jennifer Granholm will propose increasing) was also up for the month, though it is down for the year. In January, it rose 6.7 percent, and for the year has raised \$420.6 million.

And with uncertain economic times, people are gambling more. Casino taxes were up 1.2 percent, to just \$7.6 million, and for the year are up 2.2 percent, raising \$22.8 million.

Also, Lottery sales are up. In January they were up 12.2 percent, raising \$179.5 million. For the year, they are up 9.5 percent.

CONSERVATIVES BATTLE TO END DIVORCE AS WE KNOW IT

Led by Representative Joanne Voorhees (R-Wyoming), a group of legislators are proposing a series of bills that would encourage pre-marital counseling and require educational classes before a couple can legally divorce.

“It is very favorable,” said Voorhees, “and everybody is in agreement that there are, you know, our (sic) families are crumbling, and this is a very important legislation.”

This legislation is far less ambitious than that previously offered by some of the same lawmakers. Past versions would have made an actual divorce more difficult to obtain, whereas this package is geared more toward ensuring a divorcing couple fully understands the impact of their decision on their children.

In addition to offering a \$50 tax credit for couples who receive pre-marital counseling, the bills also require divorcing couples to have a “parenting plan” in place for how they will raise their children.

In 1997, then state Rep. Jessie Dahlman (R-Holland) made national headlines with her effort to permanently repeal no-fault divorce in Michigan. Critics labeled her 10-bill package a failed “attempt at moral coercion.”

State Senator Gilda Jacobs represents the 14th Senate District, which includes Beverly Hills, Bingham Farms, Farmington, Farmington Hills, Ferndale, Franklin, Hazel Park, Huntington Woods, Lathrup Village, Oak Park, Pleasant Ridge, Royal Oak Township, Southfield, and Southfield Township. She is the Minority Vice Chair of the Families & Human Services Committee and the Economic Development, Small Business & Regulatory Reform Committee. She also serves on the Government Operations and Health Policy Committees.

Constituents of the 14th District may contact Senator Jacobs at sengjacobs@senate.michigan.gov or toll-free at 1-888-937-4453.

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